

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

*BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2006*

TRACEY OBERMIYER, TREASURER



Mary Taylor, CPA
Auditor of State

Board of Education
Liberty Local School District
4115 Shady Road
Youngstown, Ohio 44505

We have reviewed the *Independent Auditor's Report* of the Liberty Local School District, Trumbull County, prepared by Julian & Grube, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Liberty Local School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 5, 2009

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**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

TABLE OF CONTENTS

Independent Auditor’s Report	1 - 2
Management’s Discussion and Analysis	3 - 12
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) - General Fund	19
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) - Emergency Levy Fund.....	20
Statement of Net Assets - Proprietary Fund.....	21
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund.....	22
Statement of Cash Flows - Proprietary Fund.....	23
Statement of Fiduciary Net Assets - Fiduciary Fund.....	24
Notes to the Basic Financial Statements.....	25 - 53
Supplementary Data:	
Schedule of Receipts and Expenditures of Federal Awards	54
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	55 - 56
Report on Compliance With Requirements Applicable to Its Major Federal Program and on Internal Control Over Compliance in Accordance With <i>OMB Circular A-133</i>	57 - 58
Schedule of Findings and Responses <i>OMB Circular A-133 § .505</i>	59 - 63

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Board of Education
Liberty Local School District
4115 Shady Road
Youngstown, Ohio 44505

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Liberty Local School District, Trumbull County, Ohio, as of and for the fiscal year ended June 30, 2006, which collectively comprise the Liberty Local School District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Liberty Local School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As disclosed in Note 3.B., Liberty Local School District has restated its net assets at July 1, 2005 to properly account for the value of Series 1997 capital appreciation bonds and to record the accreted interest on the Series 1997 capital appreciation bonds.

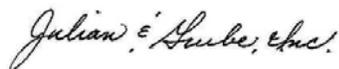
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Liberty Local School District, Trumbull County, Ohio, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary comparisons for the general fund and the emergency levy fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2009, on our consideration of the Liberty Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report
Liberty Local School District
Page Two

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Liberty Local School District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Liberty Local School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
January 23, 2009

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The management's discussion and analysis of the Liberty Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities decreased \$368,260 which represents 25.01% decrease from 2005.
- General revenues accounted for \$14,918,346 in revenue or 84.25% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,789,404 or 15.75% of total revenues of \$17,707,750.
- The District had \$18,076,010 in expenses related to governmental activities; only \$2,789,404 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$14,918,346 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and emergency levy fund. The general fund had \$12,071,694 in revenues and \$12,904,270 in expenditures and other financing uses. During fiscal year 2006, the general fund's fund balance decreased \$826,928 from a deficit of \$1,813,531 (as restated – see Note 3.B) to a deficit of \$2,640,459.
- The emergency levy fund had \$2,516,818 in revenues and \$1,891,677 in expenditures and other financing uses. During fiscal year 2006, the emergency levy fund's fund balance increased \$625,141 from a deficit balance of \$56,582 to a positive fund balance of \$568,559.

Using the Basic Financial Statements (BFS)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund and emergency levy fund are by far the most significant funds, and the only governmental funds reported as major funds.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance, pupil transportation, extracurricular activities, food service operations, and interest and fiscal charges.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and emergency levy fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-20 of this report.

Proprietary Fund

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical self-insurance. The basic proprietary fund financial statements can be found on pages 21-23 of this report.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-53 of this report.

The District as a Whole

Net assets of the District at June 30, 2005 have been restated as described in Note 3.B. to the financial statements. The table below provides a summary of the District's net assets for 2006 and 2005.

	Net Assets	
	Governmental Activities 2006	Restated Governmental Activities 2005
<u>Assets</u>		
Current and other assets	\$ 13,602,381	\$ 9,726,643
Capital assets	<u>11,717,031</u>	<u>12,337,529</u>
Total assets	<u>25,319,412</u>	<u>22,064,172</u>
<u>Liabilities</u>		
Current liabilities	13,179,757	7,985,653
Long-term liabilities	<u>11,035,355</u>	<u>12,605,959</u>
Total liabilities	<u>24,215,112</u>	<u>20,591,612</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,097,113	3,262,529
Restricted	1,277,677	1,013,835
Unrestricted (deficit)	<u>(3,270,490)</u>	<u>(2,803,804)</u>
Total net assets	<u>\$ 1,104,300</u>	<u>\$ 1,472,560</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$1,104,300.

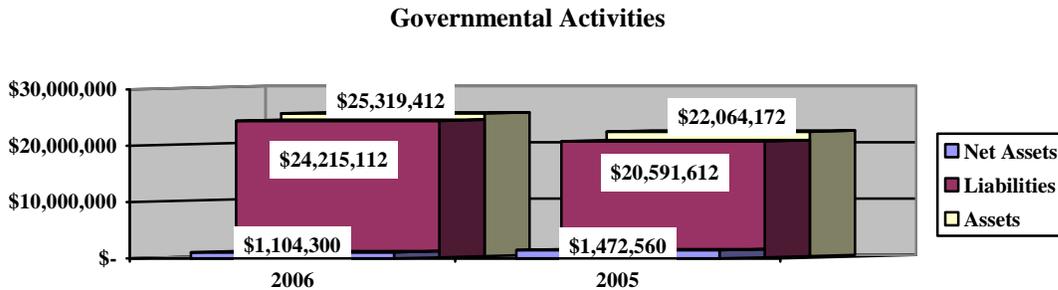
**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

At fiscal year-end, capital assets represented 46.28% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$3,097,113. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,277,677, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$3,270,490.

The graph below shows the District's assets, liabilities and net assets at June 30, 2006 and 2005:



The table below shows the change in net assets for fiscal years 2006 and 2005.

	Change in Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,360,078	\$ 1,110,901
Operating grants and contributions	1,423,826	1,351,823
Capital grants and contributions	5,500	31,645
General revenues:		
Property taxes	8,409,890	7,320,535
Grants and entitlements	6,350,412	6,614,888
Investment earnings	114,157	35,389
Other	43,887	64,754
Total revenues	17,707,750	16,529,935

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Governmental Activities 2006</u>	<u>Restated Governmental Activities 2005</u>
<u>Expenses</u>		
Program revenues:		
Instruction:		
Regular	\$ 7,564,590	\$ 6,557,090
Special	2,677,741	2,337,242
Vocational	63,548	59,711
Adult	2,901	-
Other	126	375,154
Support services:		
Pupil	513,637	389,144
Instructional staff	487,912	547,357
Board of education	9,002	4,015
Administration	1,774,727	1,384,480
Fiscal	473,544	557,370
Business	107,597	68,284
Operations and maintenance	1,819,148	1,723,190
Pupil transportation	901,630	925,710
Central	40,756	49,736
Operations of non-instructional services	34,584	27,893
Extracurricular activities	448,472	363,405
Food service operations	677,871	592,724
Interest and fiscal charges	<u>478,224</u>	<u>411,814</u>
Total expenses	<u>18,076,010</u>	<u>16,374,319</u>
Changes in net assets	(368,260)	155,616
Net assets at beginning of year	1,472,560	2,110,991
Prior period adjustment (see Note 3.B)	<u>-</u>	<u>(794,047)</u>
Net assets at end of year	<u>\$ 1,104,300</u>	<u>\$ 1,472,560</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$368,260. Total governmental expenses of \$18,076,010 were offset by program revenues of \$2,789,404 and general revenues of \$14,918,346. Program revenues supported 15.43% of the total governmental expenses.

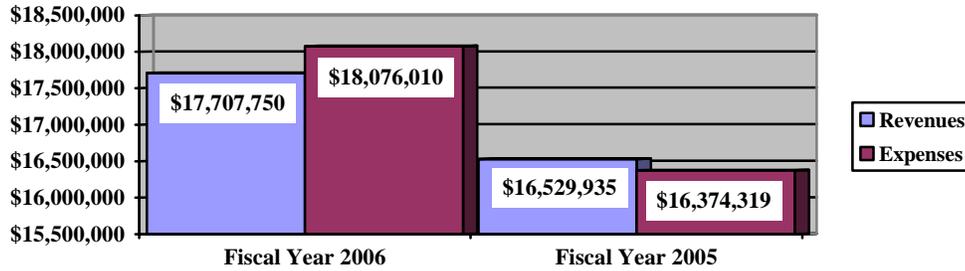
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 83.36% of total governmental revenue. Real estate property is reappraised every six years.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

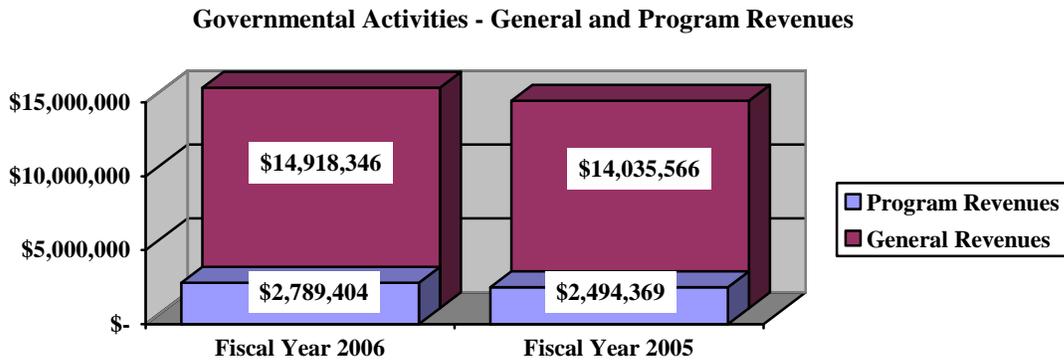
	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program expenses				
Instruction:				
Regular	\$ 7,564,590	\$ 6,574,760	\$ 6,557,090	\$ 5,957,164
Special	2,677,741	2,139,372	2,337,242	1,820,199
Vocational	63,548	63,548	59,711	59,711
Adult	2,901	(299)	-	-
Other	126	126	375,154	370,286
Support services:				
Pupil	513,637	478,161	389,144	373,658
Instructional staff	487,912	206,109	547,357	290,083
Board of education	9,002	9,002	4,015	4,015
Administration	1,774,727	1,683,841	1,384,480	1,256,631
Fiscal	473,544	473,544	557,370	537,842
Business	107,597	70,271	68,284	58,933
Operations and maintenance	1,819,148	1,819,148	1,723,190	1,687,244
Pupil transportation	901,630	901,630	925,710	915,065
Central	40,756	25,714	49,736	32,386
Operations of non-instructional services	34,584	34,584	27,893	27,893
Extracurricular activities	448,472	358,198	363,405	146,976
Food service operations	677,871	(29,327)	592,724	(69,950)
Interest and fiscal charges	478,224	478,224	411,814	411,814
Total expenses	<u>\$ 18,076,010</u>	<u>\$ 15,286,606</u>	<u>\$ 16,374,319</u>	<u>\$ 13,879,950</u>

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The dependence upon tax and other general revenues for governmental activities is apparent, 85.14% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.57%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined deficit fund balance of \$806,095, which is less than last year's deficit fund balance of \$1,159,398. Fund balances of the District at June 30, 2005, have been restated as described in Note 3.B. to the financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance/(Deficit) June 30, 2006	Restated Fund Balance/(Deficit) June 30, 2005	Increase/(Decrease)
General	\$ (2,640,459)	\$ (1,813,531)	\$ (826,928)
Emergency Levy	568,559	(56,582)	625,141
Debt service	540,212	367,662	172,550
Other Governmental	725,593	343,053	382,540
Total	\$ (806,095)	\$ (1,159,398)	\$ 353,303

General Fund

The District's general fund deficit balance increased \$826,928. The deficit fund balance in the general fund is primarily due to the reporting of tax anticipation notes as a fund liability of the general fund rather than as an other financing source. The fund balance of the general fund at June 30, 2005 has been restated as described in Note 3.B. The table that follows assists in illustrating the financial activities and fund deficit balance of the general fund.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>2006</u>	<u>2005</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Revenues</u>			
Taxes	\$ 5,065,550	\$ 4,890,791	3.57 %
Earnings on investments	110,598	34,844	217.41 %
Intergovernmental	6,085,844	6,183,546	(1.58) %
Other revenues	<u>809,702</u>	<u>899,629</u>	(10.00) %
Total	<u>\$ 12,071,694</u>	<u>\$ 12,008,810</u>	0.52 %
<u>Expenditures</u>			
Instruction	\$ 7,748,127	\$ 7,147,027	8.41 %
Support services	4,666,546	4,225,145	10.45 %
Operation of non-instructional services	33,676	27,344	23.16 %
Extracurricular activities	<u>315,921</u>	<u>271,368</u>	16.42 %
Total	<u>\$ 12,764,270</u>	<u>\$ 11,670,884</u>	9.37 %

The District saw increases in tax and interest revenue; however, the District also experienced an increase of approximately \$1,000,000 in the areas of instruction and support services expenditures.

Emergency Levy Fund

The emergency levy fund had \$2,516,818 in revenues and \$1,891,677 in expenditures and other financing uses. During fiscal year 2006, the emergency levy fund's fund balance increased \$625,141 from a deficit balance of \$56,582 to a positive fund balance of \$568,559. The increase was primarily due to an increase in tax revenue of approximately \$850,000.

Debt Service Fund

The debt service fund had \$965,230 in revenues and \$925,092 in expenditures. During the fiscal year, the District refunded the Series 1997 current interest bonds. The fund balance of the debt service fund increased \$172,550 from \$367,662 to \$540,212. The increase was primarily due to an increase in tax revenue of approximately \$172,000.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal year 2006, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$11,503,825, which was \$1,437,115 higher than the original budgeted revenue estimate of \$10,066,710. Actual revenues and other financing sources for fiscal year 2006 was \$12,067,698. This represents a \$563,873 increase over final budgeted revenues. This increase is primarily due to conservative tax and intergovernmental estimates in the original and final budgeted amounts.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$11,413,750 were increased to \$11,613,810 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$13,027,453, which was \$1,413,643 more than the final budget appropriations. The increases in appropriations were caused by the increases in maintenance, health care and personnel costs.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the District had \$11,717,031 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2006 balances compared to the balances of 2005:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2006	2005
Land	\$ 349,160	\$ 349,160
Land improvements	692,033	781,987
Building and improvements	10,459,399	10,909,072
Furniture and equipment	184,631	208,641
Vehicles	31,808	88,669
Total	\$ 11,717,031	\$ 12,337,529

The overall decrease in capital assets is due to the recording of \$620,498 in depreciation expense for fiscal year 2006.

Debt Administration

The balance of the governmental activities bond balances at June 30, 2005 have been restated as described in Note 3.B. At June 30, 2006, the District had \$9,560,970 in general obligation bonds outstanding. Of this total, \$635,000 is due within one year and \$8,925,970 is due in greater than one year. During fiscal year 2006, the District advanced and refunded the Series 1997 current interest bonds (see Note 9.B).

Outstanding Debt, at Year End

	Governmental	Restated
	Activities	Governmental
	2006	2005
General obligation bonds	\$ 9,560,970	\$ 9,869,047

In addition to the general obligation bonds, the District also has tax anticipation notes in the amount of \$1,776,000 outstanding at June 30, 2006. Principal and interest payments are not due on these notes until fiscal year 2007. Of the outstanding note balance, \$355,200 is due in one year and \$1,420,800 is due in greater than one year. The notes payable have been reported on a separate line item on the balance sheet and statement of net assets.

At June 30, 2006, the District's overall legal debt margin was \$12,381,193 with an unvoted debt margin of \$229,191. The District maintains an A-1 bond rating.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Current Financial Related Activities

The District faces many challenges in the future. The District relies heavily on local property taxes. Declining enrollment and changes in ADM calculations for foundation formulas have produced a decrease in state funding. The scheduled decreases in personal and tangible taxes contribute to the critical need for additional new local funding.

Another challenge facing the District in the completion of the campus atmosphere started with the building of the new High School. Currently, all three district buildings rest on the same plot of land. In the future, athletic fields and transportation facilities need to be relocated on the campus to complete the project. The District also faces the challenge of upgrading current facilities such as middle school science labs and band rooms, general building repairs, and storage space. The current permanent improvement levy does not provide enough funding to meet these needs. The Board declared "urgent necessity" for demolition of the old high school with a portion to remain as District wide storage.

The last major challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. At this time, the District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

The District has anticipated a lower than normal increase in funding due to declining enrollment in future State revenue. The District lost over 40 students in the last two years. The District's main challenge is how to stop this declining enrollment. With decreased State funding, cost cutting measures are inevitable unless other revenue sources become available (i.e. operating tax levy).

The District's system of budgeting and internal controls is well regarded. All of the District's financial abilities will be needed to meet the financial challenges of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact, Tracey Obermiyer, Treasurer of Liberty Local School District at 4115 Shady Road, Youngstown, Ohio, 44505-1395.

**BASIC
FINANCIAL STATEMENTS**

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 2,786,580
Investments	20,126
Receivables:	
Taxes	10,160,612
Accounts	180,596
Intergovernmental	296,688
Materials and supplies inventory	27,624
Unamortized bond issuance costs.	130,155
Capital assets:	
Land	349,160
Depreciable capital assets, net	11,367,871
Total capital assets, net	11,717,031
 Total assets.	 25,319,412
 Liabilities:	
Accounts payable.	219,987
Accrued wages and benefits	1,239,138
Pension obligation payable.	320,991
Intergovernmental payable	85,785
Deferred revenue	9,199,558
Accrued interest payable	48,206
Claims payable	290,092
Notes payable	1,776,000
Long-term liabilities:	
Due within one year.	819,128
Due in more than one year	10,216,227
 Total liabilities	 24,215,112
 Net Assets:	
Invested in capital assets, net of related debt	3,097,113
Restricted for:	
Permanent fund - nonexpendable.	4,269
Debt service	483,569
Capital projects.	230,323
Locally funded programs	386
State funded programs	71,576
Federally funded programs	125,512
Student activities.	18,955
Other purposes	343,087
Unrestricted (deficit).	(3,270,490)
 Total net assets	 \$ 1,104,300

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 7,564,590	\$ 770,325	\$ 214,005	\$ 5,500	\$ (6,574,760)
Special	2,677,741	-	538,369	-	(2,139,372)
Vocational	63,548	-	-	-	(63,548)
Adult	2,901	-	3,200	-	299
Other	126	-	-	-	(126)
Support services:					
Pupil	513,637	-	35,476	-	(478,161)
Instructional staff	487,912	-	281,803	-	(206,109)
Board of education	9,002	-	-	-	(9,002)
Administration	1,774,727	90,886	-	-	(1,683,841)
Fiscal	473,544	-	-	-	(473,544)
Business	107,597	-	37,326	-	(70,271)
Operations and maintenance	1,819,148	-	-	-	(1,819,148)
Pupil transportation	901,630	-	-	-	(901,630)
Central	40,756	-	15,042	-	(25,714)
Operation of non-instructional services:					
Other non-instructional services	34,584	-	-	-	(34,584)
Food service operations	677,871	408,593	298,605	-	29,327
Extracurricular activities	448,472	90,274	-	-	(358,198)
Interest and fiscal charges	478,224	-	-	-	(478,224)
Totals	\$ 18,076,010	\$ 1,360,078	\$ 1,423,826	\$ 5,500	(15,286,606)

General Revenues:

Property taxes levied for:	
General purposes	4,935,394
Special revenue	2,476,036
Debt service	860,153
Capital projects	138,307
Grants and entitlements not restricted	
to specific programs	6,350,412
Investment earnings	114,157
Miscellaneous	43,887
Total general revenues	14,918,346
Change in net assets	(368,260)
Net assets at beginning of year (restated)	1,472,560
Net assets at end of year	\$ 1,104,300

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General</u>	<u>Emergency Levy</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 248,122	\$ 827,941	\$ 368,256	\$ 914,573	\$ 2,358,892
Investments	20,126	-	-	-	20,126
Receivables:					
Taxes	5,569,288	3,562,475	873,109	155,740	10,160,612
Accounts	13,324	-	166,294	978	180,596
Intergovernmental	15,192	-	-	281,496	296,688
Advances to other funds	21,634	20,602	-	-	42,236
Materials and supplies inventory	15,128	-	-	12,496	27,624
Restricted assets:					
Equity in pooled cash and cash equivalents	343,087	-	-	-	343,087
Total assets	<u>\$ 6,245,901</u>	<u>\$ 4,411,018</u>	<u>\$ 1,407,659</u>	<u>\$ 1,365,283</u>	<u>\$ 13,429,861</u>
Liabilities:					
Accounts payable	\$ 162,269	\$ -	\$ -	\$ 57,718	\$ 219,987
Accrued wages and benefits	858,950	303,086	-	77,102	1,239,138
Compensated absences payable	36,223	-	-	-	36,223
Pension obligation payable	265,519	-	-	55,472	320,991
Intergovernmental payable	76,035	-	-	9,750	85,785
Advances from other funds	-	-	-	42,236	42,236
Due to other funds	178,194	-	-	10,629	188,823
Notes payable	1,776,000	-	-	-	1,776,000
Deferred revenue	5,533,170	3,539,373	867,447	386,783	10,326,773
Total liabilities	<u>8,886,360</u>	<u>3,842,459</u>	<u>867,447</u>	<u>639,690</u>	<u>14,235,956</u>
Fund Balances:					
Reserved for encumbrances	450,593	-	-	22,194	472,787
Reserved for materials and supplies inventory	15,128	-	-	12,496	27,624
Reserved for property tax unavailable for appropriation	36,118	23,102	5,662	1,010	65,892
Reserved for school bus purchase	116,388	-	-	-	116,388
Reserved for textbooks/instructional supplies	226,699	-	-	-	226,699
Reserved for debt service	-	-	534,550	-	534,550
Reserved for advances	21,634	20,602	-	-	42,236
Reserved for permanent fund	-	-	-	4,269	4,269
Unreserved, undesignated (deficit), reported in:					
General fund	(3,507,019)	-	-	-	(3,507,019)
Special revenue funds	-	524,855	-	453,002	977,857
Capital projects funds	-	-	-	232,622	232,622
Total fund balances (deficit)	<u>(2,640,459)</u>	<u>568,559</u>	<u>540,212</u>	<u>725,593</u>	<u>(806,095)</u>
Total liabilities and fund balances	<u>\$ 6,245,901</u>	<u>\$ 4,411,018</u>	<u>\$ 1,407,659</u>	<u>\$ 1,365,283</u>	<u>\$ 13,429,861</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006

Total governmental fund balance		\$	(806,095)
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			11,717,031
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	895,162	
Intergovernmental receivable		232,053	
Total			1,127,215
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.			(16,668)
In the statement of activities interest is accrued on outstanding bonds and notes, whereas in governmental funds, interest expenditures are reported when due.			(48,206)
Unamortized bond issuance costs are not recognized in the funds governmental activities in the statement of net assets.			130,155
Unamortized premiums on bond issuance is not recognized in the funds.			(423,488)
Unamortized deferred charges on refundings are not recognized in the funds.			293,327
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(9,560,970)	
Early retirement incentive		(60,000)	
Compensated absences		(1,248,001)	
Total			(10,868,971)
Net assets of governmental activities		\$	1,104,300

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General	Emergency Levy	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes	\$ 5,065,550	\$ 2,356,762	\$ 875,890	\$ 143,118	\$ 8,441,320
Tuition.	750,692	-	-	-	750,692
Charges for services.	-	-	-	408,593	408,593
Earnings on investments	110,598	-	-	-	110,598
Extracurricular	-	-	-	90,357	90,357
Classroom materials and fees.	19,633	-	-	90,803	110,436
Other local revenues	39,377	-	-	4,510	43,887
Intergovernmental - intermediate.	-	-	-	1,705	1,705
Intergovernmental - state	6,085,844	160,056	89,340	238,555	6,573,795
Intergovernmental - federal	-	-	-	1,143,250	1,143,250
Total revenues.	<u>12,071,694</u>	<u>2,516,818</u>	<u>965,230</u>	<u>2,120,891</u>	<u>17,674,633</u>
Expenditures:					
Current:					
Instruction:					
Regular	5,569,966	1,076,683	-	247,753	6,894,402
Special.	2,115,664	34,462	-	492,826	2,642,952
Vocational.	62,371	-	-	-	62,371
Adult.	-	-	-	2,901	2,901
Other.	126	-	-	-	126
Support services:					
Pupil.	386,511	54,465	-	38,473	479,449
Instructional staff	176,418	123,012	-	164,439	463,869
Board of education	9,002	-	-	-	9,002
Administration.	1,403,353	158,798	-	104,158	1,666,309
Fiscal	356,131	112,104	-	-	468,235
Business	66,609	-	-	40,988	107,597
Operations and maintenance.	1,565,436	162,542	14,349	38,978	1,781,305
Pupil transportation	674,771	150,170	-	1,581	826,522
Central.	28,315	-	-	10,327	38,642
Operation of non-instructional services:					
Other non-instructional services	33,676	-	-	908	34,584
Food service operations	-	-	-	628,592	628,592
Extracurricular activities.	315,921	-	-	129,538	445,459
Debt service:					
Principal retirement	-	-	455,000	-	455,000
Interest and fiscal charges	-	-	323,331	-	323,331
Bond issuance costs.	-	-	132,412	-	132,412
Total expenditures	<u>12,764,270</u>	<u>1,872,236</u>	<u>925,092</u>	<u>1,901,462</u>	<u>17,463,060</u>
Excess of revenues over (under) expenditures	<u>(692,576)</u>	<u>644,582</u>	<u>40,138</u>	<u>219,429</u>	<u>211,573</u>
Other financing sources:					
Transfers in.	-	-	-	159,441	159,441
Transfers (out)	(140,000)	(19,441)	-	-	(159,441)
Issuance of bonds.	-	-	6,334,994	-	6,334,994
Premium on sale of bonds.	-	-	430,832	-	430,832
Payment to bond refunding escrow agent.	-	-	(6,633,414)	-	(6,633,414)
Total other financing sources.	<u>(140,000)</u>	<u>(19,441)</u>	<u>132,412</u>	<u>159,441</u>	<u>132,412</u>
Net change in fund balances	<u>(832,576)</u>	<u>625,141</u>	<u>172,550</u>	<u>378,870</u>	<u>343,985</u>
Fund balances (deficit) at					
beginning of year (restated)	(1,813,531)	(56,582)	367,662	343,053	(1,159,398)
Increase in reserve for inventory	5,648	-	-	3,670	9,318
Fund balances (deficit) at end of year.	<u>\$ (2,640,459)</u>	<u>\$ 568,559</u>	<u>\$ 540,212</u>	<u>\$ 725,593</u>	<u>\$ (806,095)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds	\$	343,985
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.		(620,498)
Governmental funds report expenditures for inventory when purchased, however, in the statement of activities they are reported as an expense when consumed.		9,318
The issuance of refunding bonds are recorded as an other financing source in the governmental funds; however, the proceeds increase long-term liabilities on the statement net assets.		(6,334,994)
Payments to refunding bond escrow agents are an other financing use in the governmental funds, but the payment reduces long-term liabilities on the statement of net assets.		6,335,000
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	\$ (31,430)	
Intergovernmental revenues	60,988	
Total		29,558
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		455,000
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the following:		
Increase in accrued interest payable	(7,964)	
Accreted interest on capital appreciation bonds	(146,929)	
Bond issuance costs incurred in the current fiscal year	132,412	
Amortization of bond issuance costs	(2,257)	
Premium on bonds issued in the current fiscal year	(430,832)	
Amortization of bond premiums	7,344	
Deferred charges on refundings incurred in the fiscal year	298,414	
Amortization of deferred charges on refundings	(5,087)	
Total		(154,899)
Some expenses reported in the statement of activities, such as compensated absences and early retirement incentives, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(400,266)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		(30,464)
Change in net assets of governmental activities	\$	(368,260)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 3,900,987	\$ 4,472,980	\$ 5,049,701	\$ 576,721
Tuition.	717,119	737,055	757,156	20,101
Earnings on investments.	86,312	98,968	111,728	12,760
Extracurricular.	259	297	335	38
Classroom material & fees.	14,612	16,754	18,914	2,160
Other local revenues.	31,712	36,362	41,050	4,688
Intergovernmental - State	4,456,667	5,195,351	5,940,142	744,791
Total revenues	<u>9,207,668</u>	<u>10,557,767</u>	<u>11,919,026</u>	<u>1,361,259</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,433,856	4,596,966	5,171,852	(574,886)
Special.	1,871,170	1,870,430	2,104,342	(233,912)
Vocational.	57,188	57,165	64,314	(7,149)
Other	112	112	126	(14)
Support services:				
Pupil.	357,960	357,818	402,566	(44,748)
Instructional staff	153,344	153,284	172,453	(19,169)
Board of education	7,236	7,233	8,138	(905)
Administration.	1,160,261	1,159,802	1,304,845	(145,043)
Fiscal	348,503	348,365	391,931	(43,566)
Business	86,501	86,467	97,280	(10,813)
Operations and maintenance	1,644,109	1,643,458	1,848,986	(205,528)
Pupil transportation.	682,082	681,812	767,078	(85,266)
Central	25,507	25,496	28,685	(3,189)
Operation of non-instructional services	29,771	29,759	33,481	(3,722)
Extracurricular activities.	285,846	285,733	321,466	(35,733)
Total expenditures	<u>11,143,446</u>	<u>11,303,900</u>	<u>12,717,543</u>	<u>(1,413,643)</u>
Excess of expenditures over revenues.	<u>(1,935,778)</u>	<u>(746,133)</u>	<u>(798,517)</u>	<u>(52,384)</u>
Other financing sources (uses):				
Refund of prior year expenditure	380,439	397,279	148,672	(248,607)
Transfers in	478,603	548,779	-	(548,779)
Transfers (out)	(122,108)	(140,000)	(140,000)	-
Other miscellaneous (use) of funds	(148,196)	(169,910)	(169,910)	-
Total other financing sources (uses)	<u>588,738</u>	<u>636,148</u>	<u>(161,238)</u>	<u>(797,386)</u>
Net change in fund balance	(1,347,040)	(109,985)	(959,755)	(849,770)
Fund balance at beginning of year.	996,459	996,459	996,459	-
Prior year encumbrances appropriated	64,498	64,498	64,498	-
Fund balance (deficit) at end of year	<u>\$ (286,083)</u>	<u>\$ 950,972</u>	<u>\$ 101,202</u>	<u>\$ (849,770)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
EMERGENCY LEVY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	*	*		
	Original	Final		
Revenues:				
From local sources:				
Taxes	\$ 1,646,137	\$ 1,880,773	\$ 2,340,012	\$ 459,239
Intergovernmental - State.	112,595	128,643	160,055	31,412
Total revenues	<u>1,758,732</u>	<u>2,009,416</u>	<u>2,500,067</u>	<u>490,651</u>
Expenditures:				
Current:				
Instruction:				
Regular	822,867	1,048,412	1,071,184	(22,772)
Special.	50,701	28,108	28,718	(610)
Support Services:				
Pupil.	18,356	44,422	45,387	(965)
Instructional staff	128,455	119,023	121,608	(2,585)
Administration.	45,878	137,245	140,226	(2,981)
Fiscal	182,192	109,721	112,104	(2,383)
Operations and maintenance.	156,220	159,087	162,542	(3,455)
Pupil transportation	96,137	146,978	150,170	(3,192)
Central.	5,120	-	-	-
Total expenditures	<u>1,505,926</u>	<u>1,792,996</u>	<u>1,831,939</u>	<u>(38,943)</u>
Excess of revenues over expenditures.	<u>252,806</u>	<u>216,420</u>	<u>668,128</u>	<u>451,708</u>
Other financing sources:				
Transfers in	582,971	666,066	828,704	162,638
Transfers (out)	(574,449)	(830,114)	(848,145)	(18,031)
Total other financing sources	<u>8,522</u>	<u>(164,048)</u>	<u>(19,441)</u>	<u>144,607</u>
Net change in fund balance	261,328	52,372	648,687	596,315
Fund balance at beginning of year.	<u>179,254</u>	<u>179,254</u>	<u>179,254</u>	<u>-</u>
Fund balance at end of year	<u>\$ 440,582</u>	<u>\$ 231,626</u>	<u>\$ 827,941</u>	<u>\$ 596,315</u>

* The District appropriates at the fund type level. Budget appropriated amounts are allocated for financial statement presentation purposes.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents. . .	\$ 84,601
Due from other funds	188,823
Total assets	273,424
Liabilities:	
Claims payable	290,092
Total liabilities	290,092
Net assets:	
Unrestricted (deficit).	(16,668)
Total net assets (deficit)	\$ (16,668)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$ 2,295,221
Total operating revenues	<u>2,295,221</u>
Operating expenses:	
Claims expense	2,329,244
Total operating expenses	<u>2,329,244</u>
Operating loss	<u>(34,023)</u>
Nonoperating revenues:	
Interest revenue	<u>3,559</u>
Total nonoperating revenues	<u>3,559</u>
Change in net assets	(30,464)
Net assets at beginning of year	<u>13,796</u>
Net assets (deficit) at end of year	<u>\$ (16,668)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Governmental Activities - Internal Service Fund</u>
Cash flows from operating activities:	
Cash received from charges for services	\$ 2,122,459
Cash payments for claims and administrative services	<u>(2,332,880)</u>
Net cash used in operating activities	<u>(210,421)</u>
Cash flows from investing activities:	
Interest received	<u>3,559</u>
Net cash provided by investing activities	<u>3,559</u>
Net decrease in cash and cash equivalents	(206,862)
Cash and cash equivalents at beginning of year	<u>291,463</u>
Cash and cash equivalents at end of year.	<u><u>\$ 84,601</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (34,023)
Changes in assets and liabilities:	
Decrease in accounts receivable.	16,061
Increase in due from other funds	(188,823)
Decrease in claims payable	<u>(3,636)</u>
Net cash used in operating activities	<u><u>\$ (210,421)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2006

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 44,731
Receivables:	
Accounts	50
	50
Total assets	\$ 44,781
	44,781
Liabilities:	
Accounts payable.	\$ 3,080
Due to students.	41,701
	41,701
Total liabilities.	\$ 44,781
	44,781

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Liberty Local School (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a school district as defined by the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The District is located in Northeast Ohio, in Trumbull County, in the greater metropolitan Youngstown area.

The District is organized in accordance with Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms.

The District is the 308th largest by enrollment among the 615 public school districts in the state. It currently operates one elementary school and one comprehensive middle/high school. The District is staffed by 64 non-certified and 122 certified personnel to provide services to approximately 1,842 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access to organizations resources; the (3) District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATION

Northeast Ohio Management Information Network (NEOMIN)

NEOMIN is a jointly governed organization among thirty school districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County school districts, and a treasurer from each county who must be employed by a participating school district, the fiscal agent or NEOMIN. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. To obtain a copy of NEOMIN's financial statements, write to the Trumbull County Educational Service Center, 6000 Youngstown Warren Road, Niles, Ohio 44446.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Emergency Levy Fund - The Emergency Levy special revenue fund is used to account for the accumulation of tax revenue generated by an emergency tax levy and the use of those funds.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for the repayment of debt.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; (b) for grants and other resources whose use is restricted to a particular purpose; (c) fund food service operations, and (d) account for uniform school supplies.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical benefits to employees.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no private-purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for services for the employee benefit self-insurance program. Operating expenses for internal service fund includes the payment of self-insurance claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donation. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund type level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Although the legal level of control was established at the fund type level, the District has elected to present the budgetary statements at the fund and function level of expenditures.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased tax rates). By no later than January 20, the Board-adopted budget is filed with Trumbull County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the original and final amended Certificate issued during the fiscal year.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at the legal level of control. Any revisions that alter the fund level must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, all supplemental appropriations were legally enacted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The original budget amounts reported in the budgetary statements represent the first appropriation covering the entire fiscal year, including amounts automatically carried over from prior year. The final budgeted amounts reported in the budgetary statements represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

During fiscal year 2006, investments were limited to overnight repurchase agreements, common stock, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$110,598, which includes \$76,649 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when received. Inventories are accounted for using the purchase method on the fund statements and using the consumption method on the government-wide statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities <u>Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from long-term interfund loans are classified as "advances to/from other funds." These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Unamortized Issuance Costs/Bond Premium and Discount/Accounting Gain or Loss

On government-wide financial statements, issuance costs are defined and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Unamortized issuance costs are recorded as a separate line item on the Statement of Net Assets.

Bond premiums are deferred and accreted over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds.

For bond refunds resulting in the defeasance of the debt reported in the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as an addition to or reduction of the face amount of the new debt.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 9 A.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

M. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, debt service, property taxes unavailable for appropriation, school bus purchases, textbooks/instructional supplies, permanent fund and advances. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes consists of school bus purchases and textbook/instructional supplies.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

O. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount received for school bus purchases and textbook and instructional supplies. See Note 16 for details.

Q. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries”, GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation” and GASB Statement No. 47, “Accounting for Termination Benefits”.

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Prior Period Adjustments

The June 30, 2005 fund balance of the general fund has been restated to properly report tax anticipation notes as a fund liability of the fund receiving the proceeds. In addition, the June 30, 2005 net assets of the governmental activities have been restated to properly report the present value of the series 1997 capital appreciation bonds and to record the accreted interest on the series 1997 capital appreciation bonds, as disclosed in Note 9 A. The prior period adjustments had the following effect on the fund balance of the general fund and the net assets of the governmental activities as previously reported at June 30, 2005:

	General Fund	Governmental Activities
Fund balance (deficit)/net		
assets at June 30, 2005	\$ (37,531)	\$ 2,266,607
Adjustment for notes payable	(1,776,000)	\$ -
Adjustment for present value of capital appreciation bonds	-	82
Adjustment for accreted interest on capital appreciation bonds	-	(794,129)
Restated fund balance (deficit)/net		
assets at July 1, 2005	\$ (1,813,531)	\$ 1,472,560

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund/net asset deficits:

	<u>Deficit</u>
<u>Major Governmental Funds</u>	
General	\$ 2,640,459
<u>Nonmajor Governmental Funds</u>	
Summer Intervention	8,144
Poverty Aid	1,286
Title I	58,124
<u>Nonmajor Proprietary Fund</u>	
Internal Service Fund	16,668

These funds complied with Ohio State law, which does not permit a cash basis deficit at fiscal year-end. Typically, the general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

D. Noncompliance

- i.* The District had appropriations exceeding resources throughout the fiscal year in noncompliance with Ohio Revised Code Sections 5705.39 and 5705.36.
- ii.* The District had expenditures exceeding appropriations at fiscal year end in noncompliance with Ohio Revised Code Sections 5705.41(B) and 5705.40.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year-end, the District had \$250 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$(48,693), exclusive of the \$242,589 repurchase agreement included in investments below. This amount is not shown as a liability due to the District's availability of funds in its various account types. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, the District's entire bank balance of \$14,913 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

C. Investments

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
Repurchase Agreement	\$ 242,589	\$ 242,589
STAR Ohio	2,637,165	2,637,165
Common Stock *	20,126	20,126
Total	<u>\$ 2,899,880</u>	<u>\$ 2,899,880</u>

* Common stock is not an allowable investment under current Ohio statute, however this stock was bequeathed to the District. No public funds were used to acquire it.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The District's investments in federal agency securities that underlie the District's repurchase agreement were rated AAA and Aaa by Standard and Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the District's \$242,589 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the District. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 242,589	8.37%
STAR Ohio	2,637,165	90.94%
Common Stock	20,126	0.69%
Total	<u>\$ 2,899,880</u>	<u>100.00%</u>

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ (48,693)
Investments	2,899,880
Cash on hand	250
Total	<u>\$ 2,851,437</u>
<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,806,706
Agency fund	44,731
Total	<u>\$ 2,851,437</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Advances to/from other funds consisted of the following at June 30, 2006, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 21,634
Emergency Levy	Nonmajor Governmental Funds	20,602

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances were interfund loans which were not repaid in the current fiscal year and are not expected to be repaid in the subsequent fiscal year.

Advances to/from other governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the statement of net assets.

- B.** Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

	<u>Amount</u>
Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 140,000
Emergency Levy	19,441

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The Emergency Levy transferred \$19,441 to the Athletic Fund to cover expenses which is allowable per the stipulations in the Levy.

All transfers made in fiscal year 2006 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

- C.** Interfund balances at June 30, 2006 as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Internal service fund	General fund	\$ 178,194
Internal service fund	Nonmajor governmental funds	10,629

The primary purpose of the interfund balances is to account for June self-insurance premiums not paid until July.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of January 1, 2005. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 18.75% for 2006. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008, and zero for 2009.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Trumbull County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 6 - PROPERTY TAXES - (Continued)

The amount available as an advance at June 30, 2006 was \$36,118 in the general fund, \$5,662 in the debt service fund, \$1,010 in the permanent improvement fund (a nonmajor governmental fund), and \$23,102 in the emergency levy fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2005 was \$20,269 in the general fund, \$3,025 in the debt service fund, \$605 in the permanent improvement fund (a nonmajor governmental fund), and \$6,352 in the emergency levy fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 204,589,690	90.65	\$ 210,064,280	91.66
Public utility personal	8,675,310	3.84	7,825,500	3.41
Tangible personal property	<u>12,441,667</u>	<u>5.51</u>	<u>11,301,190</u>	<u>4.93</u>
Total	<u>\$ 225,706,667</u>	<u>100.00</u>	<u>\$ 229,190,970</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$45.80		\$55.60	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Taxes	\$ 10,160,612
Accounts	180,596
Intergovernmental	<u>296,688</u>
Total	<u>\$ 10,637,896</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance</u> <u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/06</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 349,160	\$ -	\$ -	\$ 349,160
Total capital assets, not being depreciated	<u>349,160</u>	<u>-</u>	<u>-</u>	<u>349,160</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,985,322	-	-	1,985,322
Building and improvements	19,122,781	-	-	19,122,781
Furniture and equipment	722,867	-	-	722,867
Vehicles	<u>1,143,294</u>	<u>-</u>	<u>-</u>	<u>1,143,294</u>
Total capital assets, being depreciated	<u>22,974,264</u>	<u>-</u>	<u>-</u>	<u>22,974,264</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(1,203,335)	(89,954)	-	(1,293,289)
Building and improvements	(8,213,709)	(449,673)	-	(8,663,382)
Furniture and equipment	(514,226)	(24,010)	-	(538,236)
Vehicles	<u>(1,054,625)</u>	<u>(56,861)</u>	<u>-</u>	<u>(1,111,486)</u>
Total accumulated depreciation	<u>(10,985,895)</u>	<u>(620,498)</u>	<u>-</u>	<u>(11,606,393)</u>
Governmental activities capital assets, net	<u>\$ 12,337,529</u>	<u>\$ (620,498)</u>	<u>\$ -</u>	<u>\$ 11,717,031</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 453,978
Special	4,731
Vocational	327
<u>Support Services:</u>	
Pupil	7,219
Instructional staff	10,576
Administration	11,772
Operations and maintenance	19,691
Pupil transportation	58,719
Central	2,114
Extracurricular activities	3,013
Food service operations	<u>48,358</u>
Total depreciation expense	<u>\$ 620,498</u>

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 9 - LONG-TERM OBLIGATIONS

- A. The District has presented a restatement of the June 30, 2005 long-term liabilities in order to properly state the present value of the series 1997 capital appreciation bonds, to record the accreted interest on the series 1997 capital appreciation bonds and to remove tax anticipation notes which are reported as a liability of the general fund and reported separately on the statement of net assets (see Note 10). This restatement decreased the long-term liabilities by \$981,953 from \$11,811,912 to \$10,829,959. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Restated Balance at <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance at <u>06/30/06</u>	Amounts Due in <u>One Year</u>
General obligation bonds	\$ 9,869,047	\$ 6,481,923	\$ (6,790,000)	\$ 9,560,970	\$ 635,000
Early retirement incentive	-	60,000	-	60,000	30,000
Compensated absences	<u>960,912</u>	<u>467,225</u>	<u>(143,913)</u>	<u>1,284,224</u>	<u>154,128</u>
Total	<u>\$ 10,829,959</u>	<u>\$ 7,009,148</u>	<u>\$ (6,933,913)</u>	10,905,194	<u>\$ 819,128</u>
Less: Unamortized deferred charge on refunding				(293,327)	
Add: Unamortized premium on refunding				<u>423,488</u>	
Total on statement of net assets				<u>\$ 11,035,355</u>	

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid which, for the District, is primarily the general fund.

- B. On November 20, 1997, the District issued general obligation bonds to provide funds for the construction of a new high school. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 3.60 mill bonded debt tax levy.

This issue is comprised of both current interest bonds, par value \$9,930,000, and capital appreciation bonds, par value \$2,935,000. The interest rates on the current interest bonds range from 4.05% to 5.25%. The capital appreciation bonds mature on December 1, 2008 (effective interest 6.522%), December 1, 2009 (effective interest 6.576%), December 1, 2010 (effective interest 6.630%), December 1, 2011 (effective interest 6.632%) and December 1, 2012 (effective interest 6.736%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2006 was \$1,269,918. Total accreted interest of \$930,662 has been included in the statement of activities.

During fiscal year 2006, the District made the required \$455,000 principal payment on the current interest bonds then refunded the callable portion (\$6,335,000) of the remaining current interest bonds. None of the capital appreciation bonds were refunded.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2020.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

The following is a schedule of activity for fiscal 2006 on the 1997 series general obligation bonds:

	Restated Balance Outstanding			Balance Outstanding	Amounts Due in
	<u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/06</u>	<u>One Year</u>
General obligation bonds - series 1997:					
Current interest bonds	\$ 7,805,000	\$ -	\$ (6,790,000)	\$ 1,015,000	\$ 490,000
Capital appreciation bonds	1,269,918	-	-	1,269,918	-
Accreted interest	<u>794,129</u>	<u>136,533</u>	<u>-</u>	<u>930,662</u>	<u>-</u>
Total G.O. bonds - series 1997	<u>\$ 9,869,047</u>	<u>\$ 136,533</u>	<u>\$ (6,790,000)</u>	<u>\$ 3,215,580</u>	<u>\$ 490,000</u>

The following is a summary of the future debt service requirements to maturity for the 1997 series general obligation bonds:

Fiscal Year <u>Ending June 30,</u>	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 490,000	\$ 380,555	\$ 870,555	\$ -	\$ -	\$ -
2008	525,000	357,525	882,525	-	-	-
2009	-	-	-	278,018	281,982	560,000
2010	-	-	-	266,352	308,648	575,000
2011	-	-	-	252,591	332,409	585,000
2012-2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>472,957</u>	<u>742,043</u>	<u>1,215,000</u>
Total	<u>\$ 1,015,000</u>	<u>\$ 738,080</u>	<u>\$ 1,753,080</u>	<u>\$ 1,269,918</u>	<u>\$ 1,665,082</u>	<u>\$ 2,935,000</u>

- C. On March 30, 2006, the District issued general obligation bonds (Series 2006 Refunding Bonds) to advance refund the callable portion of the Series 1997 Current Interest General Obligation Bonds (callable principal \$6,335,000). The issuance proceeds of \$6,633,414 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets.

The refunding issue is comprised of both current interest bonds, par value \$5,690,000, and capital appreciation bonds, par value \$1,530,000. The capital appreciation bonds mature December 1, 2014 and December 1, 2015 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2006 was \$644,994. Total accreted interest of \$10,396 has been included in the statement of activities.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

The following is a schedule of activity for fiscal 2006 on the 2006 series refunding bonds:

	Balance Outstanding <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/06</u>	Amounts Due in <u>One Year</u>
Refunding bonds - series 2006:					
Current interest bonds	\$ -	\$ 5,690,000	\$ -	\$ 5,690,000	\$ 145,000
Capital appreciation bonds	-	644,994	-	644,994	-
Accreted interest	-	10,396	-	10,396	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total refunding bonds - series 2006	<u>\$ -</u>	<u>\$ 6,345,390</u>	<u>\$ -</u>	<u>\$ 6,345,390</u>	<u>\$ 145,000</u>

The reacquisition price exceeded the net carrying amount of the old debt by \$298,414. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next sixteen years by \$457,325 and resulted in an economic gain of \$347,972.

The following is a summary of the future debt service requirements to maturity for the 2006 series refunding bonds:

Fiscal Year Ending June 30,	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 145,000	\$ 156,234	\$ 301,234	\$ -	\$ -	\$ -
2008	75,000	228,304	303,304	-	-	-
2009	75,000	225,679	300,679	-	-	-
2010	80,000	223,054	303,054	-	-	-
2011	80,000	220,254	300,254	-	-	-
2012 - 2016	890,000	992,818	1,882,818	644,994	885,006	1,530,000
2017 - 2021	<u>4,345,000</u>	<u>538,070</u>	<u>4,883,070</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,690,000</u>	<u>\$ 2,584,413</u>	<u>\$ 8,274,413</u>	<u>\$ 644,994</u>	<u>\$ 885,006</u>	<u>\$ 1,530,000</u>

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$12,381,193 (including available funds of \$373,918) and an unvoted debt margin of \$229,191.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 10 – NOTES PAYABLE

The District issued tax anticipation notes on June 16, 2005. The notes were issued in anticipation of future tax revenue and the proceeds are used for general operations of the District. As such, the tax anticipation notes are reported as a liability of the general fund, the fund which received the proceeds.

The tax anticipation notes mature on December 10, 2010 and bear an interest rate of 3.47%. These notes are backed by the full faith and credit of the District. Principal and interest payments on the tax anticipation notes are scheduled to begin in fiscal year 2007. Future debt service requirements to retire the tax anticipation notes outstanding at June 30, 2006, are as follows:

Fiscal Year Ending June 30,	Tax Anticipation Notes		
	Principal	Interest	Total
2007	\$ 355,200	\$ 55,464	\$ 410,664
2008	355,200	43,139	398,339
2009	355,200	30,814	386,014
2010	355,200	18,488	373,688
2011	<u>355,200</u>	<u>6,163</u>	<u>361,363</u>
Total	<u>\$ 1,776,000</u>	<u>\$ 154,068</u>	<u>\$ 1,930,068</u>

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and state laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Each employee earns sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made for twenty-five percent of the total sick leave accumulation, for both certificated and classified employees. An employee receiving such payment must meet the retirement provisions set by STRS Ohio and SERS.

B. Insurance Benefits

The District provides life insurance and accidental death and dismemberment insurance in the amount of \$50,000 to certified and classified employees.

C. Early Retirement Incentive

For fiscal year 2006, the District offered an early retirement incentive (ERI) of \$15,000 for certified employees and \$7,500 for classified employees. The ERI is limited to the first eight certified employees and first two classified employees who state their intention to retire in writing to the District no later than April 1, 2006 and retire no later than August 31, 2006. Three certified employees and two classified employees accepted this offer. The ERI will be paid in two equal installments on or before January 15, 2007 and January 15, 2008. Since the ERI will not be liquidated using current expendable financial resources, it has been recorded as a component of the governmental activities long-term obligations at June 30, 2006.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains comprehensive commercial insurance coverage for real property, building contents, vehicles, and general liability.

General liability insurance is maintained in the amount of \$2,000,000 for each occurrence and \$5,000,000 in the aggregate.

The District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss.

The District maintains replacement cost insurance on buildings and contents in the amount of \$31,420,401.

Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years. There has been no significant reduction in amounts of insurance coverage from fiscal 2005.

B. Health Self Insurance

The District has elected to provide employee medical/surgical benefits through a self-insured program. The District maintains a self-insurance internal service fund to account for and finance its uninsured risk of loss of this program. A third-party administrator, Professional Benefits Administrators, Inc. located in Akron, Ohio, reviews, and pays all claims. The District pays into the self-insurance Internal Service fund a premium that is paid by the fund that pays the salary for the employee and is based on historical cost information.

The claims liability of \$290,092 reported in the fund at June 30, 2006 is based on the requirements of GASB Statement No. 30, which requires that a liability for unpaid claims cost, including estimated of cost relating to incurred but not reported claims, be reported. Changes in the fund's claims liability for fiscal 2006 are as follows:

	<u>Balance at</u> <u>Beginning of Year</u>	<u>Current Year</u> <u>Claims</u>	<u>Claim</u> <u>Payments</u>	<u>Balance at</u> <u>End of Year</u>
2006	\$ 293,728	\$ 2,329,244	\$ (2,332,880)	\$ 290,092
2005	272,412	2,074,433	(2,053,117)	293,728

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

All funds of the District participate in the program and make payments to the Risk Management Fund based on actuarial estimates of the amounts needed to pay claims and actual amounts needed to pay fixed costs (premiums for stop-loss coverage and medical conversion and administrative fees and services).

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 12 - RISK MANAGEMENT - (Continued)

C. OSBA Group Workers' Compensation Group Rating Plan

For fiscal year 2006, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$187,126, \$185,411, and \$150,979, respectively. 46.54 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$100,035 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 13 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$849,851, \$829,640 and \$806,795, respectively. 83.38 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$141,243 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2006 were \$5,347 made by the District and \$15,126 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/ STRS Ohio. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$65,373 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$97,818 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 were \$158.751 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next years projected net health care costs of \$133.756 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund and major special revenue fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund and major special revenue fund is as follows:

Net Change in Fund Balance

	<u>General Fund</u>	<u>Emergency Levy</u>
Budget basis	\$ (959,755)	\$ 648,687
Net adjustment for revenue accruals	152,668	16,751
Net adjustment for expenditure accruals	(539,483)	(40,297)
Net adjustment for other sources/uses	21,238	-
Adjustment for encumbrances	<u>492,756</u>	<u>-</u>
GAAP basis	<u>\$ (832,576)</u>	<u>\$ 625,141</u>

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 16 - CONTINGENCIES - (Continued)

B. Litigation

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

NOTE 17 - STATUTORY RESERVES

The District is required by State statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the year end set-aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2005	\$ 179,359	\$ -
Current year set-aside requirement	271,554	271,554
Qualifying disbursements	<u>(224,214)</u>	<u>(417,526)</u>
Total	<u>\$ 226,699</u>	<u>\$ (145,972)</u>
Balance carried forward to FY 2007	<u>\$ 226,699</u>	<u>\$ -</u>

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years.

In addition to the above statutory reserves, the District has \$116,388 in cash restricted for school bus purchases.

A schedule of the governmental fund restricted assets at June 30, 2006 follows:

Restricted for school bus purchases	\$ 116,388
Restricted for textbooks/instructional supplies	<u>226,699</u>
Total restricted assets	<u>\$ 343,087</u>

SUPPLEMENTARY DATA

LIBERTY LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(D) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(D) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
(B) Food Donation	10.550	N/A	\$ -	\$ 59,360	\$ -	\$ 59,360
Nutrition Cluster:						
(A), (C) School Breakfast Program	10.553	050195-05PU-2005	22,034		22,034	
(A), (C) School Breakfast Program	10.553	050195-05PU-2006	73,739		73,739	
Total School Breakfast Program			<u>95,773</u>		<u>95,773</u>	
(A), (C) National School Lunch Program	10.555	050195-LLP4-2005	55,337		55,337	
(A), (C) National School Lunch Program	10.555	050195-LLP4-2006	157,845		157,845	
Total National School Lunch Program			<u>213,182</u>		<u>213,182</u>	
Total Nutrition Cluster			<u>308,955</u>		<u>308,955</u>	
Total U.S. Department of Agriculture			<u>308,955</u>	<u>59,360</u>	<u>308,955</u>	<u>59,360</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Title I - Grants to Local Educational Agencies:	84.010	050195-C1S1-2005	15,141		29,300	
Title I - Grants to Local Educational Agencies:	84.010	050195-C1S1-2006	241,511		240,499	
Total Title I - Grants to Local Educational Agencies:			<u>256,652</u>		<u>269,799</u>	
Special Education - Grants to States	84.027	050195-6BSF-2005	114,455		136,955	
Special Education - Grants to States	84.027	050195-6BSF-2006	238,244		76,009	
Total Special Education - Grants to States			<u>352,699</u>		<u>212,964</u>	
Safe and Drug-Free Schools and Communities - State Grant:	84.186	050195-DRS1-2006	9,503		9,503	
State Grants for Innovative Programs	84.298	050195-C2S1-2005	11,807		14,345	
State Grants for Innovative Programs	84.298	050195-C2S1-2006	5,682		2,037	
Total State Grants for Innovative Program:			<u>17,489</u>		<u>16,382</u>	
Education Technology State Grants	84.318	050195-TJS1-2005	5,500		5,500	
Education Technology State Grants	84.318	050195-C2S1-2005	-		2,049	
Education Technology State Grants	84.318	050195-TJS1-2006	4,980		3,840	
Education Technology State Grants	84.318	050195-TJSL-2006	148,000		147,400	
Total Education Technology State Grants			<u>158,480</u>		<u>158,789</u>	
Special Education- State Personnel Development	84.323	N/A	29,000		40,988	
Improving Teacher Quality State Grants	84.367	050195-TRS1-2005	10,573		16,040	
Improving Teacher Quality State Grants	84.367	050195-TRS1-2006	36,473		29,675	
Total Improving Teacher Quality State Grants:			<u>47,046</u>		<u>45,715</u>	
Total U.S. Department of Education			<u>870,869</u>		<u>754,140</u>	
Total Federal Financial Assistance			<u>\$ 1,179,824</u>	<u>\$ 59,360</u>	<u>\$ 1,063,095</u>	<u>\$ 59,360</u>

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs
- (B) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
- (C) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis
- (D) This schedule was prepared on the cash basis of accounting



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**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Board of Education
4115 Shady Road
Youngstown, Ohio 44505

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Liberty Local School District, Trumbull County, Ohio, as of and for the fiscal year ended June 30, 2006, which collectively comprise Liberty Local School District's basic financial statements, and have issued our report thereon dated January 23, 2009. As disclosed in Note 3, Liberty Local School District has restated its net assets at July 1, 2005 to properly account for the value of Series 1997 capital appreciation bonds and to record the accreted interest on the Series 1997 capital appreciation bonds. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Liberty Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Liberty Local School District's ability to record, process, summarize or report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as items: 2006-LLSD-001 and 2006-LLSD-002.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Of the reportable conditions described above, we consider none to be material weaknesses. We also noted other matters involving internal control over financial reporting that we have reported to management in a separate letter dated January 23, 2009.

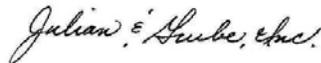
Board of Education
Liberty Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Liberty Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed four instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and responses as items 2006-LLSD-003 through 2006-LLSD-006. We also noted certain matters of noncompliance that we have reported to the management of Liberty Local School District in a separate letter dated January 23, 2009.

Liberty Local School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Liberty Local School District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Board of Liberty Local School District, federal awarding agencies and pass through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.
January 23, 2009



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**Report on Compliance With Requirements Applicable to Its
Major Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133**

Board of Education
Liberty Local School District
4115 Shady Road
Youngstown, Ohio 44505

Compliance

We have audited the compliance of Liberty Local School District, Trumbull County, Ohio, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the fiscal year ended June 30, 2006. Liberty Local School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and responses. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Liberty Local School District's management. Our responsibility is to express an opinion on Liberty Local School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Liberty Local School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Liberty Local School District's compliance with those requirements.

Board of Education
Liberty Local School District

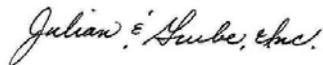
In our opinion, Liberty Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2006.

Internal Control Over Compliance

The management of Liberty Local School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Liberty Local School District's internal control over compliance with requirements that could have a direct and material effect on its major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to its major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, the Board of Liberty Local School District, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.
January 23, 2009

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program:	Nutrition Cluster: School Breakfast Program CFDA #10.553 and National School Lunch Program CFDA #10.555
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Program	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2006**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2006-LLSD-001
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Reportable Condition

This District was unable to provide a comprehensive detailed listing of individual capital assets and related depreciation by asset tag acquired through June 30, 2006. This format includes, but is not limited to, the following: description of the asset, location of the asset, asset tag number, cost, voucher number and vendor name, date placed in service, estimated useful life, depreciation method, depreciation expense and accumulated depreciation for the fiscal year by asset and the date asset retired and selling price if applicable.

While, alternative and various methods of testing were able to be performed for purposes of the audit, the District lacks internal controls over their reporting of capital assets.

The District has undergone significant change in recent years regarding facilities. We recommend the District consider consulting with an appraisal company or take a physical inventory of District assets with their own sources. We further suggest the District consider a “tagging” method of asset inventory and prepare a detailed schedule that supports the cost, book value, and depreciation schedule for each item. This schedule should then be maintained on a current basis. We further recommend the District re-evaluate its policies, procedures and controls regarding additions and disposals of capital assets.

Complete information such as described above on each capital asset may help provide additional controls for the safeguarding of these assets. Better assessment and evaluation could also be made regarding the reliability of certain capital assets and the District’s future needs for improvements and replacements.

Client’s Response: The District obtained an complete appraisal in fiscal 2008.

Finding Number	2006-LLSD-002
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Reportable Condition

The District lacks controls over timely and accurate financial reports. The District consults with a firm to prepare its annual GAAP financial statements; however, the final documentation to complete that process was not received until April 2007 and resolution regarding a 2002 audit adjustment was not resolved until 2008 which is beyond the deadline for filing the financial report with the Auditor of State’s Office and beyond the required deadline for the Federal Clearinghouse. The Auditor of State’s Office did obtain an extension of time to file with the clearinghouse on behalf of the District.

While there were delays in both filing the annual GAAP report and completing the annual audit due to numerous circumstances, timely financial reports is essential to the operation of the District to help ensure complete and accurate data is being provided to the District’s citizens.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2006**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2006-LLSD-002 - (Continued)

We recommend the District management take a more active role in overseeing the financial reporting process. We further recommend that they evaluate steps necessary to ensure financial reports are issued in a timely manner. This will help ensure that reports are submitted as required.

Client's Response: The Treasurer is aware of the requirements and the delay was due primarily to obtaining supporting documentation for a 2002 proposed audit adjustment that was unresolved until 2008.

Finding Number	2006-LLSD-003
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Ohio Revised Code Section 5705.36 in part, requires subdivisions to request increased or reduced amended certificates of estimated resources upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.

Throughout the fiscal year the District had appropriations exceeding estimated resources. Thus, the District did not request enough amended certificates throughout the fiscal year upon notice of increased or decreased resources in order to equal or exceed appropriations.

The District is not properly certifying its most current estimated resources to the appropriate authorities and thus causing appropriations to exceed estimated resources.

We recommend that the District review its available resources versus its appropriations throughout the fiscal year and file amended certificates when necessary. This will facilitate the District's appropriation process.

Client response: The Treasurer will attempt to monitor estimated resources throughout the fiscal year and request amendments as necessary.

Finding Number	2006-LLSD-004
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Ohio Revised Code Section 5705.39 requires that a subdivision's total appropriations from each fund should not exceed the total estimated resources.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2006**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2006-LLSD-004- (Continued)

The District, which appropriated at the fund type level, had total appropriations exceeding the total estimated resources at November 30, 2005 as follows.

<u>November 30, 2005</u>	<u>Appropriations</u>	<u>Estimated Resources</u>	<u>Excess</u>
<u>Fund Type</u>			
General	\$ 11,413,750	\$ 11,127,667	\$ 286,083
Special Revenue Funds	2,745,509	1,973,222	772,287
Capital Project Funds	1,118,532	979,278	139,254
Enterprise Funds	755,079	706,354	48,725

With appropriations exceeding estimated resources the District may spend more funds than in the Treasury or process of collection and cause fund deficits.

We recommend that the District comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by keeping more accurate appropriations versus estimated resources records and amending the budget throughout the fiscal year and at fiscal year end. If it is determined that estimated revenues will be greater than initially anticipated, the District should amend its official estimate in order to provide for any additional appropriations; however, appropriations should not exceed estimated resources. In addition, the District should monitor its budgetary process on a continual basis.

Client response: The Treasurer will attempt to monitor estimated resources and appropriations throughout the fiscal year and request amendments as necessary.

Finding Number	2006-LLSD-005
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Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.

The District had expenditures exceeding appropriations at the fund type level of control at June 30, 2006 as follows:

<u>Fund Type</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General	\$ 11,613,810	\$ 13,027,453	1,413,643
Special Revenue Funds	2,153,116	2,332,880	179,764

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2006**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2006-LLSD-005- (Continued)

With expenditures exceeding appropriations, the District is unlawfully expending monies that have not been appropriated. This could result in unnecessary purchases or fund deficits.

We recommend that the District comply with the Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations and amending the budget as needed. This may be achieved by monitoring the budget more closely on a continual basis.

Client Response: The Treasurer will attempt to monitor appropriations and expenditures throughout the year and amend the budget as necessary.

Finding Number	2006-LLSD-006
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Ohio Revised Code Section 5705.40 outlines the requirements for amending and supplementing appropriations. This section requires that any amendments to an appropriation measure be made by resolution and comply with the same provisions of the law as used in making the original appropriations.

The District did not timely modify its appropriations throughout the fiscal year.

By not timely and properly modifying the District's appropriations, the District is not adequately monitoring its expenditures versus appropriations. This may result in appropriating monies in excess of estimated resources, and having expenditures exceed appropriations, and possibly, fund deficits.

We recommend that the District comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by monitoring its budgetary process on a regular basis and approving amendments as necessary. We recommend that District adopt accounting policies for amending appropriations, consider reviewing estimated resources and appropriations and expenditures versus appropriations on a monthly basis, and certify amendments to the Board of Education as necessary. We recommend the District utilize its accounting software or a spreadsheet to help monitor the budget.

Client Response: The Treasurer will attempt to monitor appropriations and expenditures throughout the year and amend the budget as necessary.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None



Mary Taylor, CPA
Auditor of State

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 17, 2009